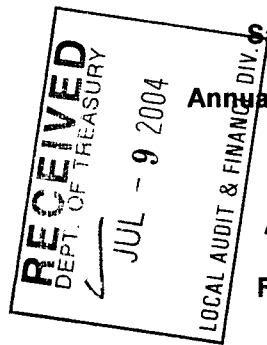


76-7509

Sandusky Community Fire Department Association



Sandusky, Michigan

Annual Financial Statements

and

Auditors' Report

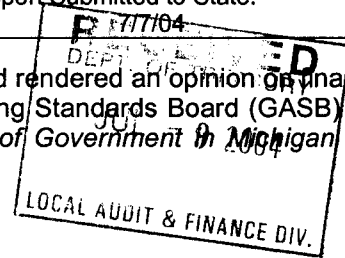
February 29, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sandusky Fire Department Association	County Sanilac
Audit Date 2/29/04	Opinion Date 6/17/04	Date Accountant Report Submitted to State: 6/17/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
--	----------	-----------------	--------------

The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPA's			
Street Address 3149 Main Street Plaza #4, P.O. Box 218	City Marlette	State MI	ZIP 48453
Accountant Signature <i>Robert L. Genney</i>			

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Balance Sheet - All Funds and Account Groups	2
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	3
Notes to Financial Statements	4-8



Independent Auditors' Report

Honorable Board Members
Sandusky Community Fire Department Association
Sandusky, Michigan

Members of the Board:

We have audited the accompanying financial statements of the Sandusky Community Fire Department Association, as of and for the year ended February 29, 2004, as listed in the table of contents. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky Community Fire Department Association, as of February 29, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Yeo & Yeo, P.C.

Marlette, Michigan
June 17, 2004

Sandusky Community Fire Department Association
Combined Balance Sheet - All Funds and Account Groups
February 29, 2004

	<u>General</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>Total (Memorandum Only)</u>
Assets				
Cash and cash equivalents				
Unrestricted	\$ 100,370	\$ -	\$ -	\$ 100,370
Restricted	63,937	-	-	63,937
Receivable - fire runs (net of allowance of \$ 22,650)	22,650	-	-	22,650
Prepaid expense	1,330	-	-	1,330
Property, plant and equipment	-	560,128	-	560,128
Amount to be provided for retirement of general long-term debt	-	-	62,988	62,988
Total assets	\$ 188,287	\$ 560,128	\$ 62,988	\$ 811,403
Liabilities and fund equity				
Liabilities				
Accounts payable	\$ 2,002	\$ -	\$ -	\$ 2,002
Accrued rent payable	845	-	-	845
Note payable - Bank One	-	-	62,988	62,988
Total liabilities	2,847	-	62,988	65,835
Fund equity				
Investment in general fixed assets	-	560,128	-	560,128
Fund balance				
Restricted	63,937	-	-	63,937
Unrestricted	121,503	-	-	121,503
Total fund equity	185,440	560,128	-	745,568
Total liabilities and fund equity	\$ 188,287	\$ 560,128	\$ 62,988	\$ 811,403

See Accompanying Notes to Financial Statements

Sandusky Community Fire Department

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual For the Year Ended February 29, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Contribution from City of Sandusky	\$ 65,177	\$ 65,177	\$ -
Contribution from Watertown Township	35,513	35,513	-
Contribution from Custer Township	27,666	27,666	-
Contribution from Elmer Township	16,839	16,839	-
Interest	800	1,402	602
Fire runs	-	56,100	56,100
Miscellaneous	2,500	254	(2,246)
Contributions	500	287	(213)
Total revenues	<u>148,995</u>	<u>203,238</u>	<u>54,243</u>
Expenditures			
Salaries	23,000	25,643	(2,643)
Social security taxes	2,100	1,962	138
Workers' compensation	1,600	1,330	270
Bad debt	-	13,868	(13,868)
Operating supplies	4,300	4,702	(402)
Safety gear	6,900	2,402	4,498
Telephone	2,000	2,823	(823)
Gas and oil	1,000	1,269	(269)
Insurance	11,500	11,991	(491)
Electrical	2,400	2,469	(69)
Heating	2,300	3,528	(1,228)
Rent	12,000	11,954	46
Sewer and water charges	900	656	244
Maintenance - building	5,300	10,160	(4,860)
Maintenance - vehicle	10,000	9,383	617
Education and training	1,000	1,298	(298)
Membership dues	1,275	419	856
Miscellaneous	1,000	40	960
Capital outlay - equipment	25,000	-	25,000
Debt - interest	3,675	3,659	16.00
Professional fees - audit	2,100	1,105	995
Total expenditures	<u>119,350</u>	<u>110,661</u>	<u>8,689</u>
Excess of revenues over expenditures	<u>29,645</u>	<u>92,577</u>	<u>62,932</u>
Other financing uses			
Payments on borrowings	<u>(29,645)</u>	<u>(29,645)</u>	<u>-</u>
Excess of revenues over expenditures and other uses	-	62,932	62,932
Fund balance - beginning of year	<u>122,508</u>	<u>122,508</u>	<u>-</u>
Fund balance - end of year	<u>\$ 122,508</u>	<u>\$ 185,440</u>	<u>\$ 62,932</u>

See Accompanying Notes to Financial Statements

Sandusky Community Fire Department Association
Notes to Financial Statements
February 29, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ASSOCIATION OPERATION AND FUND TYPES

The Sandusky Community Fire Department Association was created on March 1, 2001, by the City of Sandusky and the Townships of Custer, Elmer and Watertown. All of the governmental entities are located in Sanilac County, Michigan. The department operates under a joint nine (9) member board consisting of two (2) representatives from each of the entities and one (1) member elected at large by the board, for the purpose of providing total fire protection to the City of Sandusky, all of Watertown Township, twenty-four (24) square miles of Custer Township, and sixteen (16) square miles of Elmer Township. The Association was established under Public Act 22, commonly known as the Fire Protection Act, which provides that adjoining cities with a population of not more than 15,000 and townships acting jointly may establish, fund, maintain and regulate a fire department for the benefit of the residents thereof.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Sandusky Community Fire Department Association is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Sandusky Community Fire Department Association.

BASIS OF PRESENTATION

The financial activities of the Association are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUND TYPE

GENERAL FUND - The General Fund is the general operating fund of the Association. It is used to account for all financial resources except those required to be accounted for in another fund.

ACCOUNT GROUPS

GENERAL FIXED ASSETS ACCOUNT GROUP - The General Fixed Assets Account Group is used to account for fixed assets used by governmental fund type operations. All fixed assets are valued at historical cost. No depreciation is recorded on general fixed assets.

GENERAL LONG-TERM DEBT ACCOUNT GROUP - The General Long-Term Debt Account Group is used to establish accounting control and accountability for the unmatured principal on the Sandusky Fire Department Association's general long-term debt.

BASIS OF ACCOUNTING

Basis of accounting refers to the timing of when revenues and expenditures are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Sandusky Community Fire Department Association
Notes to Financial Statements
February 29, 2004

The Governmental Fund Type is accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable or available to finance current operations and expenditures are recognized when the related liability is incurred.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of investment trusts which are recorded at cost which approximates market value. The investment trusts have the general characteristics of demand deposit accounts in that the Association may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

BUDGETS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Sandusky Community Fire Department Association's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of Sandusky Community Fire Department Association were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOTAL COLUMNS ON COMBINED STATEMENTS – OVERVIEW

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither, is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

USE OF ESTIMATES

The preparation of financial statements in conformity accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 2 - FIRE PROTECTION AGREEMENT

Effective March 1, 2001, the City of Sandusky and the Townships of Custer, Elmer and Watertown, entered into an agreement to create the Sandusky Community Fire Department Association for the purpose of providing fire protection services. The Fire Department operates under a nine (9) member board composed of City and Township representatives who have the power to purchase, maintain and operate the department as they see necessary. Under the agreement, each municipality shall pay its proportional share of the operating expenses, based upon the number of fire runs, excluding depreciation, plus any fixed assets purchased according to a formula agreed upon by the Board.

Sandusky Community Fire Department Association
Notes to Financial Statements
February 29, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

The Association's deposits and investments totaling \$ 164,307 are presented on the balance sheet as cash and cash equivalents.

Michigan Compiled Laws, Section 129.91, authorizes the Association to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of the United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Association's Board has designated two (2) banks for deposit of funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and Certificates of Deposits in financial institutions that maintain an office in Michigan.

At February 29, 2004, total bank deposits amounted to \$ 160,797, of this amount, \$ 110,707 is FDIC insured and \$ 50,090 is uninsured and uncollateralized.

NOTE 4 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Association exceeded budgeted amounts as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over</u>
Salaries	\$ 23,000	\$ 25,643	\$ 2,643
Bad debt	-	13,868	13,868
Operating supplies	4,300	4,702	402
Telephone	2,000	2,823	823
Gas and oil	1,000	1,269	269
Insurance	11,500	11,991	491
Electrical	2,400	2,469	69
Heating	2,300	3,528	1,228
Maintenance - building	5,300	10,160	4,860
Education and training	1,000	1,298	298
	<u>1,000</u>	<u>1,298</u>	<u>298</u>
Total	<u>\$ 52,800</u>	<u>\$ 77,751</u>	<u>\$ 24,951</u>

Sandusky Community Fire Department Association
Notes to Financial Statements
February 29, 2004

NOTE 5 - RESTRICTED ASSETS

SINKING FUND

The original capital contributions received in cash by the Association from the constituent units and interest earned on these contributions was restricted for the purchase of vehicles and fire fighting equipment and apparatus. The constituent units also make annual contributions to the sinking fund based upon budgeted amounts. Details of the changes in restricted assets for the year ended February 29, 2004 are as follows:

Balance at March 1, 2003		\$ 43,185
Additions		
Contributions from constituent units	\$ 20,000	
Interest income	<u>752</u>	
		<u>20,752</u>
Balance at February 29, 2004		<u>\$ 63,937</u>

Restricted assets and fund balance consisted of the following as of February 29, 2004

Sinking Fund	<u>\$ 63,937</u>
Total restricted fund balance	<u>\$ 63,937</u>

NOTE 6 - CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group during the year ended February 29, 2004.

	Balance March 1, 2003	Additions	Disposals	Balance February 29, 2004
Equipment	<u>\$ 560,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560,128</u>

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in the long term debt for the year ended February 29, 2004:

	Balance March 1, 2003	Additions	Payments	Balance February 29, 2004
2000 Bank One, 3.95% interest, final payment due April 15, 2005	<u>\$ 92,633</u>	<u>\$ -</u>	<u>\$ 29,645</u>	<u>\$ 62,988</u>

Sandusky Community Fire Department Association
Notes to Financial Statements
February 29, 2004

The annual debt service requirement, including interest is as follows:

<u>2000 Bank One</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2004	\$ 30,816	\$ 2,488	\$ 33,304
2005	<u>32,172</u>	<u>1,132</u>	<u>33,304</u>
	<u>\$ 62,988</u>	<u>\$ 3,620</u>	<u>\$ 66,608</u>

NOTE 8 - RISK MANAGEMENT

The Sandusky Community Fire Department Association is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association, together with other municipalities, is a member of the Michigan Municipal Risk Management Authority (MMRMA). A public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims. The MMRMA provides general liability, property, crime and fleet coverage to the Association.

The Association does not provide employee health or life insurance coverage. The Association does provide workers compensation insurance coverage. Workers compensation and employers liability insurance policy is through Accident Fund Company.

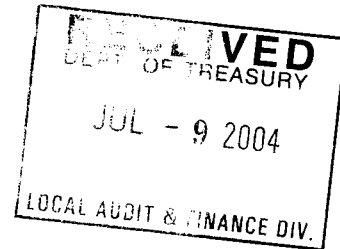
NOTE 9 - RELATED PARTY TRANSACTIONS

The Association rents the fire hall on a yearly basis from the City of Sandusky at an annual rental of \$ 11,950. The City of Sandusky is a member of the Association.



June 17, 2004

To the Board of Directors
Sandusky Community Fire Department Association
Sandusky, Michigan



In planning and performing our audit of the financial statements of the Sandusky Community Fire Department Association for the year ended February 29, 2004, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated June 17, 2004, on the financial statements of the Sandusky Community Fire Department Association.

Cash

Internal controls could be strengthened by having a board member receive the unopened bank statement each month and review the activity. The statement could then be given to the Treasurer for the monthly reconciliation. If there is a problem reconciling it should be taken care of in a timely manner so it does not cause a continual problem each month. The board should also be reviewing the bank statement and the reconciliation at the monthly board meeting.

Accounts Receivable

Collection on the amounts billed for fire runs has been very poor. A new strategy needs to be developed to collect the amounts that you are billing. Your current policy of sending the original bill, three statements and then action for small claims court is an acceptable plan, however it does not appear to be producing results. We recommend you look into this area further and take action to improve the situation.

GASB 34

The Association is required to adopt GASB 34 for the fiscal year ended February 28, 2005. The major change being, financial statements will now be shown on the full accrual basis. All assets and liabilities of the Association will be recorded on the financial statements and there will no longer be a general fixed asset account group or a general long term debt account group.

We recommend that you start taking steps now in order for a smooth conversion. Outlined below are the main items the Association needs to focus on for this process.

1. The board needs to adopt a capitalization policy for its fixed assets. We recommend that you select a fixed dollar amount and capitalize anything above that amount.
2. A fixed asset depreciation schedule needs to be prepared and maintained. The schedule should list each fixed asset (based on the capitalization policy adopted); date purchased, purchase price, depreciation method (normally straight line), life of asset, accumulated depreciation as of 2/29/03, current year depreciation, and the net book value.
3. Management's, Discussion and Analysis (MD&A) is a new item that will need to accompany your audited financial statements. The MD&A is intended to give the reader an easy-to-understand overview of the Association's financial position and results of operations for the year. The MD&A precedes and introduces the financial statements and must be prepared by the Association's management.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with the Treasurer, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Association for their support and assistance during our audit. It is with pride that we count the Sandusky Community Fire Department Association as one of our clients.

This report is intended solely for the information and use of the Board of Directors, management and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

Geo & Geo, P.C.

Marlette, Michigan

June 17, 2004